ARB Holdings Limited

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Unaudited interim results

for the six months ended 31 December 2015

(Registration number: 1986/002975/06) Share code: ARH ISIN: ZAE000109435 ("ARB" or "the company" or "the group")

Salient features

- **Revenue** up 12,4% to R1,24 billion
- **Operating profit** up 10,9% to R108,4 million
- **Headline earnings** per share up 12,1% to 27,79 cents
- **Ungeared** with R190,9 million net cash on hand

Condensed group statement of comprehensive income

	% Change	Unaudited 6 months to 31 December 2015 R000's	Unaudited 6 months to 31 December 2014 R000's	Audited year to 30 June 2015 R000's
Revenue	12	**1 235 804**	1 099 866	2 150 764
Cost of sales	12	**958 790**	852 749	1 633 459
Gross profit	12	**277 014**	247 117	517 305
Other income	(7)	**2 520**	2 724	4 061
Operating expenses	13	**171 154**	152 079	324 839
Profit before interest and taxation	11	**108 380**	97 762	196 527
Interest received	20	**9 125**	7 595	15 175
Interest paid		**(210)**	(46)	(95)
Profit before taxation	11	**117 295**	105 311	211 607
Taxation payable	12	**32 158**	28 710	58 481
Profit for the period	11	**85 137**	76 601	153 126
Items that will not be recycled into profit or loss				
Revaluation of property (net of taxation)		**–**	–	10 202
Total comprehensive income for the period	11	**85 137**	76 601	163 328
Profit for the period attributable to:		**85 137**	76 601	153 126
Minority interests	9	**20 041**	18 344	35 667
Ordinary shareholders	12	**65 096**	58 257	117 459
Total comprehensive income attributable to:		**85 137**	76 601	163 328
Minority interests	9	**20 041**	18 344	35 667
Ordinary shareholders	12	**65 096**	58 257	127 661

Reconciliation between earnings and headline earnings

	Unaudited 6 months to 31 December 2015 R000's	Unaudited 6 months to 31 December 2014 R000's	Audited year to 30 June 2015 R000's
Profit for the period attributable to ordinary shareholders	**65 096**	58 257	117 459
Loss on disposal of property plant and equipment (net of taxation and minorities)	**203**	–	12
Headline earnings	**65 299**	58 257	117 471
Number of ordinary shares in issue (000's)	**235 000**	235 000	235 000
Weighted average number of ordinary shares in issue (000's)	**235 000**	235 000	235 000
Diluted number of ordinary shares* (000's)	**235 000**	235 000	235 000
Earnings per share* (cents)	**27,70**	24,79	49,98
Headline earnings per share* (cents)	**27,79**	24,79	49,99

** There are no dilutive instruments in issue.*

Condensed group statement of financial position

	% Change	Unaudited 6 months to 31 December 2015 R000's	Unaudited 6 months to 31 December 2014 R000's	Audited year to 30 June 2015 R000's
ASSETS				
Property, plant and equipment	6	**222 338**	210 696	221 672
Intangible assets		**83 581**	83 815	83 659
Deferred taxation		**9 944**	10 680	8 149
Total non-current assets		**315 863**	305 191	313 480
Current assets		**1 011 656**	853 167	966 626
Inventory	(7)	**390 880**	422 059	387 973
Trade and other receivables	43	**428 500**	299 144	351 345
Deferred lease payments		**–**	–	328
Taxation		**1 399**	865	200
Cash resources	46	**190 877**	131 099	226 780
Total assets		**1 327 519**	1 158 358	1 280 106
EQUITY AND LIABILITIES				
Share capital and premium		**116 174**	116 174	116 174
Revaluation reserve		**70 302**	60 100	70 302
Accumulated profit		**577 207**	523 644	582 846
Attributable to ordinary shareholders		**763 683**	699 918	769 322
Minority interests		**217 330**	199 166	216 489
Total shareholder's funds		**981 013**	899 084	985 811
Non-current liabilities		**39 015**	35 032	39 607
Deferred lease payments		**309**	67	981
Deferred taxation	11	**38 706**	34 965	38 626
Current liabilities	37	**307 491**	224 242	254 688
Trade and other payables	38	**302 125**	218 591	252 185
Deferred lease payments		**–**	–	11
Taxation payable	42	**5 366**	3 775	2 492
Bank overdraft		**–**	1 876	–
Total equity and liabilities		**1 327 519**	1 158 358	1 280 106
Net asset value per share (cents)		**324,97**	297,84	327,37
Net tangible asset value per share (cents)		**299,31**	271,77	302,44
Property, plant and equipment				
Capital expenditure for the period		**7 520**	12 173	15 662
Capital commitments – contracted for		**1 525**	–	3 910
Depreciation		**5 683**	5 682	11 180

Condensed group statement of cash flows

	Unaudited 6 months to 31 December 2015 R000's	Unaudited 6 months to 31 December 2014 R000's	Audited year to 30 June 2015 R000's
Cash generated by trading	**113 918**	103 071	208 271
Increase in net working capital	**(30 122)**	(53 458)	(37 979)
Cash generated by operating activities	**83 796**	49 613	170 292
Net interest received	**8 915**	7 549	15 080
Dividends paid	**(89 935)**	(89 751)	(89 751)
Taxation paid	**(32 198)**	(25 057)	(52 470)
Cash flows from operating activities	**(29 422)**	(57 646)	43 151
Cash flows from investing activities	**(6 481)**	(10 697)	(13 937)
Cash flows from financing activities	**–**	(18)	(18)
(Decrease)/increase in cash resources	**(35 903)**	(68 361)	29 196
Cash resources at beginning of period	**226 780**	197 584	197 584
Cash resources at end of period	**190 877**	129 223	226 780

Condensed group statement of changes in equity

	Share capital R000's	Share premium R000's	Revaluation reserve R000's	Accumulated profit R000's	Minority interests R000's	Total R000's
Balance at 30 June 2014 (audited)	24	116 150	60 100	536 122	199 838	912 234
Total comprehensive income for the period				58 257	18 344	76 601
Dividends paid				(70 735)	(19 016)	(89 751)
Balance at 31 December 2015 (unaudited)	24	116 150	60 100	523 644	199 166	899 084
Total comprehensive income for the period			10 202	59 202	17 323	86 727
Balance at 30 June 2015 (audited)	**24**	**116 150**	**70 302**	**582 846**	**216 489**	**985 811**
Total comprehensive income for the period				**65 096**	**20 041**	**85 137**
Dividends paid				**(70 735)**	**(19 200)**	**(89 935)**
Balance at 31 December 2015 (unaudited)	**24**	**116 150**	**70 302**	**577 207**	**217 330**	**981 013**

Condensed group segment report

	Electrical R000's	Lighting R000's	Corporate R000's	Inter-company eliminations R000's	Total R000's
Unaudited for 6 months ended 31 December 2015					
Segment revenue	**999 095**	**255 917**	**19 642**	**(38 850)**	**1 235 804**
Profit before interest and taxation	**64 149**	**29 804**	**14 427**	**–**	**108 380**
Segment assets	**871 325**	**279 849**	**402 700**	**(226 355)**	**1 327 519**
Segment liabilities	**286 191**	**152 604**	**88 871**	**(181 160)**	**346 506**
Net segment assets	**585 134**	**127 245**	**313 829**	**(45 195)**	**981 013**
Unaudited for 6 months ended 31 December 2014					
Segment revenue	890 226	213 555	18 850	(22 765)	1 099 866
Profit before interest and taxation	59 172	23 372	15 218	–	97 762
Segment assets	753 639	224 145	376 920	(196 346)	1 158 358
Segment liabilities	210 847	117 561	80 510	(149 644)	259 274
Net segment assets	542 792	106 584	296 410	(46 702)	899 084
Audited for 12 months ended 30 June 2015					
Segment revenue	1 740 585	425 499	38 219	(53 539)	2 150 764
Profit before interest and taxation	122 676	43 800	30 051	–	196 527
Segment assets	805 412	239 195	374 101	(138 602)	1 280 106
Segment liabilities	211 318	121 629	56 238	(94 890)	294 295
Net segment assets	594 094	117 566	317 863	(43 712)	985 811

Basis of consolidation

These condensed unaudited consolidated interim financial statements for the six months ended 31 December 2015 have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting guides as issued by the Accounting Practices Committee, Financial Pronouncements issued by the Financial Standards Council, the requirements of the Companies Act, No 71 of 2008, the JSE Listings Requirements and the information required by IAS 34 – Interim Financial Reporting. This report was compiled under the supervision of Grant Scrutton CA(SA) (Financial Director). The Board takes full responsibility for the preparation of these financial results. The accounting policies used in the preparation of these unaudited results are in accordance with IFRS and are consistent, in all material respects, with those used in the audited annual financial statements for the year ended 30 June 2015 and for the unaudited results for the six months ended 31 December 2014.

Nature of business

ARB is an investment and property holding company with investments in closely related trading and distribution businesses, including 74% of ARB Electrical Wholesalers (Pty) Ltd, a level 3 B-BBEE company which operates 19 electrical wholesale branches throughout South Africa and 60% of the Eurolux (Pty) Ltd which imports and distributes light fittings, lamps and related accessories.

Commentary

The board of directors of ARB ("the Board") is pleased to present the group's interim results for the six months ended 31 December 2015 ("the period").

Financial review

The group's revenue for the period increased by 12% to R1,24 billion. The Lighting Division continues to show pleasing market share gains, while the Electrical Division was able to grow its turnover in an extremely challenging market. Trading disciplines were maintained which ensured that the gross profit margin remained unchanged relatively at 22,4% (2014: 22,5%). Although the operating profit grew 11% to R108,4 million (2014: R97,8 million), the operating margin remained almost unchanged at 8,8% (2014: 8,9%) of revenue.

The group continues to be cash generative and has maintained its strong focus on the management of working capital. While debtors grew 43% to R428,5 million, as a result of extended terms to specific contractors, similar extended terms were negotiated with our suppliers, resulting in a 38% increase in creditors. Net working capital improved to 20,9% (2014: 22,8%) of annualised turnover. Notwithstanding the payment of dividends during the period of R89,9 million, net interest received increased by 18% to R8,9 million.

Gross capital expenditure for the period was R7,5 million which entails predominantly the replacement of vehicles in the Electrical Division and the costs related to the roll out of the additional Connect Stores.

The group has maintained its robust balance sheet, which remains ungeared with net cash on hand of R190,9 million (2014: R129,2 million).

Divisional review

Electrical Division (revenue up 12,2% and operating profit up 8,4%)

This division continues to operate in an extremely challenging environment with a dearth of any significant infrastructure projects and Eskom's lack of electrification projects. The division's revenue growth has been achieved from an increase in municipal electrification projects, ahead of the municipal elections, and persistence in securing orders in some of the limited project opportunities available in the market. With the limited trading opportunities, the gross margin continues to be under pressure. Operating profit increased 8,4% to R64,1 million (2014: R59,2 million), with operating margin of 6,4% (2014: 6,6%).

Lighting Division (revenue up 19,8% and operating profit up 27,5%)

Despite the competitive environment in which this division operates, it continues to show pleasing market share gains and an expanded product range. Revenue is up 19,8% to R255,9 million (2014: R213,6 million). The volatility in the exchange rate has put pressure on gross margins however, through the management of overheads, the operating profit increased 27,5% to R29,8 million (2014: R23,4 million), and operating margin improved to 11,6% (2014: 10,9%). The new joint venture with Crabtree Electrical Products to distribute their products to our retail customers has had little effect on the current earnings, but is starting to show potential for future growth.

Prospects

While there are short-term opportunities for the Electrical Division in the run up to the municipal elections, there remain a number of structural challenges in the South African economy, including but not limited to, low growth prospects, a decline in mining and manufacturing activities, an abnormally volatile exchange rate and very limited infrastructure spending.

The Lighting Division is expected to continue its growth with further market share gains and the introduction of additional products to its existing customer base, while the Electrical Division is expected to continue "mining" the limited project opportunities. On this basis it is essential that the group maintains its disciplined approach to working capital management and optimisation of the operational efficiencies of the existing businesses, while it continues to evaluate acquisition opportunities at the corporate level.

The interim statements, including these "Prospects" have neither been reviewed nor reported on by the auditors.

Changes to the Board

Mr James Dixon was appointed as an independent non-executive director on 18 January 2016 to replace Mr Gerrit ("Boel") Pretorius who retired at the AGM on 12 November 2015. As previously announced, Grant Scrutton was appointed as Financial Director on 1 October 2015.

Financial assistance to related or inter-related companies and corporations (section 45)

The holding company has provided financial guarantees and cessions of loan accounts to the group's bankers on behalf of the subsidiary companies as security for facilities granted to the subsidiary companies.

Contingent liabilities and subsequent events

A major subsidiary, ARB Electrical Wholesalers (Pty) Ltd, received a summons in December 2015 as third defendant from a major listed construction company totalling R78 million. The claim is primarily against the construction company's insurer in terms of a professional indemnity policy with the claim on ARB Electrical being an alternative claim. Attorneys have been appointed to defend the matter as management believe that there is no reasonable justification for this claim.

Subsequent to 31 December 2015 the company has concluded an agreement to sell its Reuven property for a net consideration of R8,2 million. There is no effect on headline earnings per share and the transaction is uncategorised in terms of the JSE Listings Requirements.

No other significant events have occurred in the period between the reporting date and the date of this announcement.

Dividends

ARB's policy is to distribute a single annual dividend for the full year up to a maximum of 40% of net profit after taxation attributable to ordinary shareholders. In line with this policy, no interim dividend has been declared.

Appreciation

We would like to acknowledge and thank our customers, suppliers, business partners, advisors, shareholders, management and staff for their continued support.

For and on behalf of the Board

Alan R Burke
Chairman

W (Billy) Neasham
Chief Executive Officer

17 February 2016

Directors
AR Burke* (Chairman), ST Downes#*, J Dixon#*, WR Neasham (CEO), RB Patmore^#*, GM Scrutton (Financial)
** Non-executive # Independent ^ Lead independent*

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